

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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PASS TREASURY AND FRB

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TAGS: EFIN, IT

SUBJ: ITALIAN PRIME RATE REDUCED FROM 17.25 TO

15 PERCENT. INTEREST RATES PAYABLE ON DEMAND AND

SAVINGS DEPOSITS ALSO REDUCED

REF: A. ROME 3405 OF MARCH 7, 1975

B. ROME 2140 OF FEBRUARY 13, 1975

C. ROME 2419 OF FEBRUARY 19, 1975

1. MILAN FINANCIAL DAILY /IL SOLE 24 ORE/ ON APRIL 19

REPORTED THAT ITALIAN BANKING ASSOCIATION CARTEL HAD AGREED

TO LOWER FROM 17.25 PERCENT TO 15 PERCENT THE INTEREST RATE

CHARGED BY BANK CARTEL TO PRIME BORROWERS. SIZEABLE REDUCTION

IN PRIME RATE OF 2.25 PERCENTAGE POINTS WAS ACCOMPANIED BY

REDUCTION BY CARTEL MEMBERS OF INTEREST RATES APPLICABLE TO

DEMAND DEPOSITS AND TO SAVINGS ACCOUNTS (SEE BELOW). NEW INTEREST

RATES REPORTEDLY WILL TAKE EFFECT ON MAY 1, 1975.

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2. NEW REDUCED INTEREST RATES APPLICABLE TO DEMAND DEPOSITS AND TO SAVINGS ACCOUNTS VARY ACCORDING TO SIZE OF DEPOSITS. EXTENT OF DECREASE IN APPLICABLE RATES FROM PREVIOUS RATES IS GREATER FOR SAVINGS CCOUNTS. FOLLOWING TABLE SUMMARIZES NEW RATES APPLICABLE TO BOTH TYPES OF DEPOSITS.

AMOUNT OF DEPOSIT	DEMAND DEPOSITS		SAVINGS ACCOUNTS	
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(MILLIONS OF LIRE)

	NEW	OLD	NEW	OLD
OVER 20 TO 50	6.0 PERCENT	6.5	7.5 PERCENT	8.0
OVER 50 TO 100	6.5 "	8.0	8.0 "	9.5
OVER 100 TO 250	7.5 "	9.5	8.5 "	11.0
250 AND ABOVE	8.5 "	10.5	9.0 "	12.0

3. IN ANNOUNCING ABOVE NEW REDUCED INTERESTS RATES, ITALIAN BANKING ASSOCIATION REFERRED TO NEED TO SUSTAIN ECONOMIC ACTIVITY IN ITALY. NEW INTEREST RATES IN PART REFLECT PRESSURES FROM FINANCIAL AND BUSINESS CIRCLES FOLLOWING WHAT THEY CHARACTERIZED AS INSUFFICIENT EARLIER REDUCTIONS IN PRIME RATE (REPORTED REF A. GREATER INTEREST RATE REDUCTIONS FOR SAVINGS ACCOUNTS THAN FOR DEMAND DEPOSITS ALSO DESIGNED TO PROVIDE FRESH IMPETUS TO CHANELLING PRIVATE SECTOR SAVINGS INTO BOND MARKET.

4. /IL SOLE-24 ORE/ NOTES THAT BANKING SYSTEM WILL NO LONGER BE COMPETING WITH BOND MARKET FOR PRIVATE SAVINGS BY VIRTUE OF REDUCTIONS IN INTEREST RATES APPLICABLE TO SAVINGS ACCOUNTS. RESULT SHOULD BE THAT GREATER SAVINGS MAY FLOW TO BOND MARKET WITH CORRESPONDING SIPHONING OF SAVINGS AWAY FROM BANKING SYSTEM. IN RETURN BANKS REPORTEDLY SEEKING COMPENSATORY CHANGES BY BANK OF ITALY IN REGULATIONS REGARDING REQUIRED PORTFOLIO INVESTMENTS WHICH ARE DUE TO EXPIRE AT END JUNE (REF C) IN THIS REGARD, BANKS HAVE COMPLAINED THAT EARNINGS ON REQUIRED PORTFOLIO INVESTMENTS HAVE BEEN RELATIVELY LOW, AS HAVE BEEN EARNINGS ON LARGE PORTFOLIOS OF OLDER LOWER-INTEREST RATE LOANS. BANKS HAVE CITED LOW EARNINGS REFERRED TO ABOVE IN SUPPORT OF MAINTAINING LARGE DIFFERENTIAL BETWEEN UNCLASSIFIED

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INTEREST PAID ON DEPOSITS AND INTEREST CHARGED TO CLIENTS.

5. IN COMMENTING ON RECENT ACTION BY BANK CARTEL TREASURY MINISTER COLOMBO CHARACTERIZED NEW INTEREST RATE MEASURES AS CONTRIBUTING TO GOI EFFORTS TO FOSTER INDUSTRIAL PRODUCTION AND EMPLOYMENT. HE SAID NEW MEASURES REFLECT AND ARE CONSISTENT WITH RECENT IMPROVEMENT IN BALANCE OF PAYMENTS AND EASING OF PRICE INFLATION. HE ALSO CITED NEW MEASURES AS A

POSITIVE CONTRIBUTION TO SAVINGS AND TO FUNCTIONING OF FINANCIAL MARKET AS REGARDS SALE OF FIXED-INTEREST SECURITIES. HE ADDED THAT NEW MEASURES TAKE INTO ACCOUNT CONTINUED OBJECTIVES OF GOI TO COMBAT EXPORT OF SAVINGS TOWARDS HIGHER-INTEREST MARKETS AND TO COMBAT PRICE INFLATION. COLOMBO EMPHASIZED THAT INTEREST RATE POLICIES WILL CONTINUE TO BE CONDITIONED BY DEVELOPMENTS IN BALANCE OF PAYMENTS AND PRICE FIELDS AS CIRCUMSTANCES PERMIT.

6. SPEAKING ON BEHALF OF BANKS, PROF. VENTRIGLIA, VICE PRESIDENT OF BANK OF ROME, SPOKE ON NATIONAL TELEVISION, GIVING REASONS FOR NEW MEASURES AS IMPROVEMENTS IN BALANCE OF PAYMENTS AND IN PRICE PERFORMANCE. HOWEVER, CENTRIGLIA ALSO STATED THAT PROBLEMS OF ITALIAN ECONOMY FAR FROM SOLVED AT PRESENT, ADDING THAT INTEREST RATES IN ITALY WILL HAVE TO REMAIN AT LEVELS 3 OR 4 POINTS ABOVE INTERNATIONAL LENDING RATES IN ORDER TO AVOID PRESSURE ON BALANCE OF PAYMENTS FROM EXPORT OF CAPITAL. AT SAME TIME, SAID VENTRIGLIA, DOMESTIC INTEREST RATES WILL HAVE TO REFLECT HIGHER PRICE INFLATION IN ITALY EVEN THOUGH INFLATION HAS EASED SOMEWHAT RECENTLY.BEAUDRY

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